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Scenarios, Options and Policy Dilemmas faced with the Bursting of the Economic Bubble

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In the previous IDeIAS in this series, we put the problematic of the debt into context. We analysed the impact of the secret debt and we discussed some of the main myths which have marked the debate. This IDeIAS discusses scenarios, options and policy and economic restructuring dilemmas faced with the explosion (debt crisis) and the implosion (shrinking of investment, economic growth and employment) of the economic bubble.

The Mozambican economy is going through processes that are similar to those of the European periphery, with identical challenges, in common global contexts, although on different scales and with different historical specificities. What may happen, now that the Mozambican economic bubble has burst, and has entered a phase of implosion? What will be necessary to win and to defend in order to advance with a viable programme of restructuring the debt and the centres and mode of accumulation of the economy? These urgently need profound restructuring, but at the same time require a challenge, both to the monetarist orthodoxy of "austerity", which will certainly mark the adjustment measures coming from the international organisations, and the authoritarian, corporativist economic nationalism oriented to the interests of the national oligarchies associated with multinational capital.

In a scenario of crisis, economic policy will change direction, shifting from a focus on attracting more foreign capital and on its linkages with emerging domestic oligarchic capital, to a focus on exceptional measures to control the deficits. What could be the options? Among various possibilities, the debates and the tensions will be centred around the following options, or a combination of them, depending on the intensity and coordination of the social and political struggle over the production and distribution of income and over who pays for and who benefits from the adjustment process:

Cuts in social expenditure (social security, health, education, public transport, public security, subsidies on the prices of basic goods and services, etc.), accompanied by privatisation, more or less as in a clearance sale, of public services and companies and of natural resources, generating new spheres of private profit, reducing the access of citizens to services and the sovereignty of the State over public assets and resources. Given the levels of poverty and the massive privatisations that have occurred since the 1990s, there is not much room for cuts in social expenditure and for privatisations. Furthermore, these tend to worsen poverty and social inequality, with the risk of causing crises and social tensions. It is likely that the delivery of what remains of the public companies and of the State's fixed assets – such as the land and the resources of the subsoil - to international capital and national oligarchs will be speeded up, as a way of converting the debt into liquidity to meet the fiscal needs of the State in the short term. These measures are among the favourites of the IMF and of the global financial complex, who imposed them on Greece and on the rest of the European periphery, on other parts of Africa and on Latin America, since they protect short term financial interests. In Mozambique, it will be necessary to fight for alternatives to this type of approach.

Cuts in the privileges of political leaders and in some of the State's running costs. This would be a popular and symbolic measure, answering the popular perception that it is "excessive State spending" which creates the crisis, and affirming that the government is sensitive and committed to the concerns of citizens. However, this would free only a limited amount of resources to face a crisis on the scale of the entire economy. On its own, this measure does not solve the problem, but it may help bring credibility to the government and lift the morale of society.

A drastic reduction in the number of staff working in the State apparatus: wage costs amount to 40% of total public expenditure, and so there is a lot of room for financial adjustment. However, most of these people work in essential public services, such as health, education and the police. Significant cuts in staff would reduce the coverage and lower the quality of the service provided, possibly leading to an even more severe crisis in the public services. This crisis would have an impact on the quality of life of citizens, above all on the low income social groups, who constitute the majority of the population, since they are the ones who most depend on public services. Furthermore, the State is the largest employer and there are few alternative employment options. Thus a further immediate impact of drastic staffing cuts in the State apparatus would be unemployment. With a combination of unemployment and a deterioration in the quality of social services, this measure would lead to a significant increase in poverty. This is another favourite approach of the IMF and of the financial markets, but it is one of those which faces most resistance, on the part of the working classes and of the government, because of its political, social and economic implications.

The fight against corruption. It is difficult to distinguish "corruption" from the logic of the primitive accumulation of capital (without which capitalism does not exist). To what extent can the legislation and the political practices, which allow the systematic expropriation of the State in favour of the accumulation of private capital, be defined as corruption? What distinguishes the case of a State agent who appropriates public funds for his personal benefit from that of another public agent who appropriates strategic public resources (various minerals, hydrocarbons, land, infrastructures and even the space of public indebtedness) and hands them over to multinational corporations and Mozambican oligarchs? Does the legitimacy of the act depend on whether the government of the day has authorised it or not, or whether the agent has the historical background or the family or other connections which enable him to expropriate the State? Under these circumstances who will wage a fight against corruption, what corruption and how? What will be the political; social and economic impact of this fight? The greater the problem, the more resistance there will be, because there will be more to lose. For example, the debate over EMATUM was framed by the argument that it is a national defence and security project, which justifies its opacity. The same argument was recently used for the cases of Proindicus, MAM and the loan for the Ministry of the Interior. These four projects, financed by foreign commercial debt with high interest rates and short repayment periods, were not submitted to parliament for approval and nor, in the case of the latter three, were they included in the State budget (and hence they are illegal). However, they account for more than US$ 2.2billion of public debt (15% of GDP), although the allocation is known of only one sixth of these funds. Can this action, which has damaged the State and the citizens, economically, financially and politically, be regarded as corrupt or not? When the new government accepts these debts and charges citizens with paying them, is it protecting corruption or a logical form of capitalising the national oligarchies? The fight against corruption is a line of action to follow which, however, will only be credible and make sense, if the central questions (mentioned above) are clarified and focused upon. To make the present government credible, it would be important to begin rigorous investigation of the illegal and secret loans assumed by the previous government and take action on several fronts: to correct the systems for planning and assessing projects, for managing the public finances and for taking decisions; to improve the system for holding the executive accountable, including the mechanism for parliamentary control over its actions; and, if sufficient evidence is found, to investigate and take to court the high level officials suspected of involvement in these financial crimes against the stability of the State, democracy and development.

Drastic cuts in public investment (suspension, or even cancellation, of projects). Such cuts could have four immediate implications: reduction in the activity or paralysis of projects currently under way; cancellation of approved projects; reduction of expectations and possible flight of investors and speculators; and reduction and possible disappearance of one of the main bases of primitive accumulation of the emerging financial oligarchies in Mozambique, namely their privileged association with multinationals and with State contracts. Cuts in projects of doubtful viability or priority – EMATUM, Proindicus, MAM, the Ka Tembe bridge, and other mega-projects which favour financial applications and real estate speculation, but do not serve the economy as a whole – may benefit the economy, by freeing existing resources for options that are more adequate from the economic and social point of view, and putting the brakes on the trends to uncontrolled public indebtedness. If these projects are linked to powerful interests, who have decided on their implementation and who benefit from them, despite their doubtful social viability, it may be difficult to cut them. In this case, the government may be obliged to opt for social austerity, with a negative impact on the quality of life of ordinary citizens and on future economic and social options. The struggle around these questions is being waged in Mozambique, and in other countries, because this is an area of constant challenges and tension – the priorities, those who benefit, and those who lose out. The choices are not socially neutral, nor are they necessarily peaceful and consensual. The revision, restructuring and reorientation of public investment is an area of vital importance for the recovery and transformation of the economy.

Partial or total renegotiation of the debt, restructuring it, or transferring the problem to the future. The EMATUM debt has already been restructured, with the issuing of debt securities with a longer maturity period, with the highest interest rates on the international financial market, concentrating the payment of the capital in a single instalment at the end, in 2023. Over a period of seven years, the State will have to mobilise about US$ 1.4billion to pay the loan of US$ 850 million plus the interest, and without including the operational losses of the company (US$ 20 million, in 2015 alone), or the implications of the bondholders possibly demanding a new agreement, more favourable to them, after the discovery of the secret loans. So, although it relaxes the pressure on the debt service in the short and medium term, since the capital will only be amortised at the end of the period, the restructuring agreement has made this loan more expensive. Furthermore, debt service on the secret loans (Proindicus, MAM and Ministry of the Interior) annuls any short and medium term gains which might have been achieved with the rescheduling and restructuring of the EMATUM debt. It is expected that future income from the hydrocarbon mega-projects will make it possible to repay these debts by 2023. However: (i) not only is it not known when or how much revenue will be generated from coal and gas; (ii) but also the political capacity of the State to collect taxes on capital income is also unknown; (iii) but, whatever the income from these projects, a substantial part, or all, of any fiscal revenue that might be collected is already mortgaged to pay the current debt, and there are several large financial commitments competing for the same funds. What will be the priorities? What will be the benefit for the economy, as a whole, and for the ordinary citizen? What capacities will the economy have created, through the exploitation of these resources, to drive its development once the non-renewable resources are exhausted? In the European case, the States rescued the banks and generated the global economic crisis. In the Mozambican case, the State has capitalised the rentier oligarchies and national speculators, with the support of the global financial system rescued by the European States, using the strategy of public investment in the extractive core of the economy, in real estate speculation and in armament, economic porosity, the public-private partnerships, the cheap privatisation of strategic public resources and the guaranteeing of private debt on a large scale. These phenomena, all taken together, have generated the greatest economic and financial crisis of the past quarter of a century in the country. There negotiation of the debt (partial cancellation and restructuring) will be useful, if it is to free up resources for a strategy of diversification and economic coordination and a broadening of the social base of development. But if its objective is limited to fiscal stabilisation, the risk will be the worsening of foreign dependence and consolidation of the cycle and the vice of debt. The restructuring of the debt will have to be global, with two focuses, the cancellation of the illegal debt, concentrated on the guarantees given to foreign loans contracted byprivate companies; and the restructuring of the remaining debtas part of a package of reorienting public investment and the development strategy and fiscal revenue, especially the direct revenue on the income of large capital.

Strategic reorientation of the policy of resource mobilisation and public expenditure, away from its current focus on promoting and subsidising multinationals and their national partners (redundant fiscal incentives, public-private partnerships, low cost expropriations, public indebtedness to finance the infrastructure and logistical basis for the multinationals, direct financing for companies of national oligarchs, etc.),and towards an approach tending to diversify the economy and focus on the major questions that affect the poor majority of the country: decent jobs, access tobasic goods (especially food) of quality and at low cost, education and training, development of public services and social security, creation of a capacity to substitute imports and diversity exports. This focus is contrary to the current practices of neoliberal adjustment and the current characteristics of the social system of accumulation in Mozambique. This is the path to avoiding the worst effects of the bursting and the implosion of the economic bubble, and to emerge from the debt trap, but it requires the renegotiation of the debt, the end of financial speculation, and the commitment to creating dynamics of accumulation resting on the real economy and on decent jobs. Without challenging and removing power from the national and international oligarchies it will be impossible to generate an economy of well-being for society as a whole.

Alongside measures of fiscal austerity or mobilisation and reallocation of budgetary resources, it is likely that measures of monetary austerity will be discussed to contain inflation, particularly if the Bank of Mozambique continues to place its primary focus on inflation targets, as advocated in the Government's Five Year Programme (PQG) for 2015-19. Indeed, recently the central bank increased its reference interest rates, which will provoke an increase in the interest rates charged by the commercial banks. The determinants of inflation are the prices of basic consumer goods, particularly food, the costs of fuel, and the real estate bubble. Since the basic goods and fuel are imported, imported inflation plays an important role, particularly because of the devaluation of the national currency. Inflation happens whenever an economy grows rapidly without creating the capacity to supply more basic consumer goods. In this case, it is created by the structure and dynamic of investment and of economic growth. These dynamics cannot be changed merely by monetary restrictions, so that anti-inflationary monetarist measures may not help reduce inflation. Furthermore, such measures impose still more restrictions on small and medium Mozambican companies which are not connected to the extractive core of the economy and which are dependent on the domestic financial system. By restricting access to capital, monetary policy may act against the diversification, broadening and coordination of the productive base, thus preventing a solution of the problem which causes inflation and consolidating the speculative dynamics of the financial system. The monetary restrictions do not affect the external flows of capital, and thus discriminate against companies that are dependent on the domestic financial system. Finally, the increase in interest rates makes private and public debt more expensive. In conclusion, monetarist measures of this nature may worsen the economic, financial and social crisis rather than help solve it..

It would be more interesting to pursue other paths to economic recovery, namely, as has already been mentioned in previous IDeIAS, (i) the auditing, restructuring and partial cancellation of the debt (above all, the illegal debt), within parameters that are consistent with a strategy of diversification, broadening and coordination of the productive, commercial, fiscal and employment base, of production of basic consumer goods at low cost, and of the provision of basic public services; (ii) the renegotiation of the contracts with mega-projects and with projects that involve the State as a partner, and a revision of fiscal incentives;(iv) the restructuring of the portfolio of public investment, including the economic and financial reassessment of the projects, the cancelling of those which are less relevant for the economy (even if they are large), bringing public investment into line with national economic and social priorities;(v) the improvement of the project planning, assessment, budgeting and management systems and public decisions, and of the systems for monitoring the executive by parliament and other sovereign bodies of control over the public accounts.